

**Preliminary Results of a Survey of Federal CFOs and Financial  
Managers on the Financial Management Line of Business Initiative**

**Statement of Clifton A. Williams, CPA, CGFM**

**Partner, Grant Thornton LLP**

**before the**

**Subcommittee on Government Management, Finance and  
Accountability**

**House Government Reform Committee**

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Grant Thornton LLP  
Global Public Sector  
333 John Carlyle Street  
Alexandria, Va. 22314  
Phone: 703 837 4400  
Web: [www.Grantthornton.com/public sector](http://www.Grantthornton.com/publicsector)

## Table of Contents

Statement of Mr. Williams.....	1
About the Association of Government Accountants and Grant Thornton.....	1
The 2006 CFO Survey and the Financial Management Line of Business initiative.....	2
Interim findings of the 2006 CFO Survey .....	2
Audit implications of shared services arrangements .....	5
Private sector role in shared services .....	5
Resume of Mr. Williams.....	6
Addendum A: 2006 CFO Survey Questionnaire .....	7



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Chairman Platts, Congressman Towns and Members of the Committee, thank you for the opportunity to testify about the U.S. Office of Management and Budget's Financial Management Line of Business (FMLOB) initiative. My testimony's source includes interviews with federal financial executives and managers done as part of an annual CFO Survey done by Grant Thornton LLP on behalf of the Association of Government Accountants (AGA).

To summarize the CFO Survey's interim findings, most federal CFOs and other financial managers we interviewed are in favor of the central concepts of the FMLOB. Their concern is with how the FMLOB initiative will be executed. Sound execution will depend of the following success factors:

- The ability to develop standard financial management processes throughout government.
- Sound governance structures and agreements between shared services providers and their customers.
- Effective change management, to ease the transition to a new way of doing some financial management operations.
- Excellent performance management, including service level agreements and performance measures.
- Good management of customer relations and of the technology and processes involved.

**About the Association of Government Accountants and Grant Thornton**

The AGA is an organization of accountability professionals dedicated to the enhancement of public financial management. Among other education-related activities, AGA sponsors professional development institutes for government financial management personnel and administers the Certified Government Financial Manager (CGFM) program.

Grant Thornton LLP is one of the largest accounting and management consulting firms in the world. Grant Thornton's Global Public Sector, based in Alexandria, Va., is a global management consulting business with the mission of providing responsive and innovative financial, performance management and systems solutions to governments and international organizations.

## **The 2006 CFO Survey and the Financial Management Line of Business Initiative**

On behalf of the AGA, since 1996 Grant Thornton has conducted an annual survey of federal CFOs, deputy CFOs and other financial managers. We guarantee anonymity to survey participants, which encourages candor. The 2006 CFO Survey, which uses in-person interviews, includes the following questions about the FMLOB initiative. The full survey questionnaire is attached as an addendum. (The questions refer to Centers of Excellence [COE], a term used for an arrangement in the FMLOB initiative in which federal entities are the shared services providers for other federal entities.)

1. (If the participant's organization already is a LOB/COE for financial functions, ask the following questions):
  - a. In your opinion, has becoming a LOB/COE been a positive experience for your organization? Please explain.
  - b. In the next two years, do you think your LOB/COE will recruit more customers?
  - c. What lessons have you learned about LOB/COE that you would like to share with your colleagues in other organizations?
2. (If the participant's organization is not a LOB/COE for financial functions, ask the following questions):
  - a. Over the next two years, do you see your organization becoming a LOB/COE for financial functions? If so, which functions?
  - b. Over the next two years, do you see your organization moving financial functions to an outside LOB/COE? If so, which functions and why?

This year's survey is still in progress, with findings due in June. Today's report is on 40 interviews completed by early March of this year. Of the 40 surveys, 20 were of federal chief financial officers at the Department or agency level. We expect that approximately 70 CFOs and financial managers will be interviewed for the 2006 CFO survey. In addition, we are conducting an on-line poll of financial managers and analysts in the field and expect to have about 100 responses from that survey. The on-line survey does not address the Financial Management Line of Business.

### **Interim findings of the 2006 Survey**

**FMLOB is not new.** Several 2006 survey respondents pointed out that the FMLOB concept of using shared services providers is not new. Instead, they said, the concept is a variation on a broader, older trend in government and industry of transferring routine administrative and support activities to a shared services provider. Almost no respondents to the 2006 CFO survey oppose the concept of shared services, so long as service quality is good and reasonably priced.

Many respondents had different definitions on the scope and range of services a COE would provide for the FMLOB. Most definitions only include the hosting of application software and transaction processing as the range of services. When probed about including accounting operations and analytical services to the scope of services, most were surprised that these services would even be considered.

As discussed in the report of the 2003 AGA/Grant Thornton annual CFO Survey, *Financial Operations: Who will do it in the future and why?*, shared services arrangements already used by the Federal Government include cross-servicing, federal franchising, contracting out, outsource and the use of application service providers. In that survey, the reported trend in the CFO community was away from a clerical workforce focused on transactions toward a professional workforce focused on analysis and providing information for business cases and executive decisions for financial management. Shared services, according to the 2003 respondents, offer ways to shift financial transaction services and other routine activities to lower cost providers with the right technology and demonstrated experience to handle such services.

**Agencies want more time to consider FMLOB options.** Some respondents want more time to consider their options. In addition, they want more guidance from OMB, such as better definitions of Centers of Excellence and the services they will provide. They want to know how to evaluate their options, including calculating the return on investment of different decisions. Respondents were aware that OMB intends to provide additional guidance in the near future.

Some interviewees thought pressure by the Lines of Business initiatives is good because it accelerates positive trends. These trends include consolidating information systems, reducing costs, increasing standardization and forcing agencies to compare and benchmark their systems and operations. The purpose of the comparisons is to determine if an agency's current financial management operations are as good as or better than services that would be provided by a Center of Excellence. This will enable them to decide whether to go forward as a customer of a COE or as a COE service provider. Many want guidance developed for agencies to how to compare fairly the bids for services between private sector versus public sector providers versus public and private sector consortia providers.

**Capability of COE providers.** While the 2006 respondents agree that there are substantial benefits that can result from shared services, they want to be ensured that COE providers have the technical and staff resources to manage an agency of their size. Also, they want the COE to have the customer service capability needed to meet a customer agency's performance criteria. One of their greatest fears is of being forced to migrate to a COE, investing the millions of dollars of their own budgets for the integration and transition, and then finding that the COEs are not capable of delivering the promised services or managing multiple entities as customers with potentially competing priorities. Respondents from large Departments and agencies would like to see examples of similar-sized entities successfully making the move to a COE arrangement.

**Service level agreements, governance and performance.** Many respondents were concerned about the uncertainty of contractual relationships between the COEs and their customers. The respondents know what recourse they have when commercial contractors fall short of stated performance objectives—the contractors may pay penalties, may have reduced profits and, at the extreme, be “fired.” However, some respondents are not clear about the recourse for a customer agency if a COE’s services fall short of agreed-upon levels of performance. Some respondents said that, considering the substantial investment it requires to migrate to a COE, having clearly defined service level agreements with specific performance criteria that outline impacts for failing to meet service levels would help allay the fears of CFOs and foster more willingness to try the COE approach. Concerns remain over what would happen to a COE should a large customer pull out and go elsewhere because of poor service. In addition, where will the funds come from to make such a transition—the customer agency or the COE that failed to meet agreed upon service standards?

**Situations appropriate for choosing the COE option.** Some respondents said that shared services are more appropriate for some agencies than others are, meaning one size does not fit all. For example, they said, large cabinet level agencies that have already successfully implemented a financial ERP and that have their financial houses in order may not be better off transferring activities to a COE or becoming a COE. Respondents said that these agencies should have the option of migrating to a COE when their financial systems near the end of the systems’ useful life. In addition, these agencies should continue to have the latitude to make additional investments in their systems to improve internal efficiencies. Shared services might be more appropriate for large cabinet level agencies that plan for financial systems modernization or are involved in a modernization initiative that is not progressing smoothly. COEs also make sense for many of the smaller agencies with budgets under \$100 million dollars. (In fact, such customers make up the base of customers for most shared services arrangements today.) Some commented that simply getting to one COE and accounting systems per CFO Act agency should be all that we should strive for, because that alone would save millions of dollars.

**Sources of capital.** Some respondents were concerned about how COEs will acquire and accumulate capital funding, especially for investments in innovation. Their concerns included the start-up aspects as well as down the road systems maintenance. In addition, some respondents were concerned about the ability to build up reserves for contingencies such as having to pay penalties or other fees to customers. Private companies regularly save for or otherwise acquire and invest capital to stay current in technology, to expand a business so that it can handle more customers and to maintain a prudent reserve. The Economy Act restricts the ability of COEs to do this without a working capital fund and even then, some complications remain. This was a substantial concern that must be addressed before it creates serious service issues. Congress might consider legislation allowing COEs to have greater flexibility in retaining a portion of their revenues for the purposes of enhancing operations, building capacity and maintaining reserves.

**Competition.** Some respondents mentioned that there is a lack of true competition between (a) commercial providers and federal agencies and (b) among federal agencies. We understand that OMB is developing guidance for how agencies should run competitions for COEs and between COEs and private companies. The guidance should address creating formal service level agreements with performance measures and enable the use of financial incentives and disincentives for performance. In addition, the rules should stipulate the recourse for failure to meet performance standards and clarify who is required to pay to migrate from one COE to another if performance levels are not met. Many respondents promoted the public/private sector partnering for the COE's, as the Department of Transportation and General Services Administration have started.

### **Audit implications of shared services arrangements**

There should be no audit implications for a federal agency that transitions to a shared services provider, if the provider complies with regulations for information systems and internal controls. These rules include the Federal Financial Management Improvement Act of 1996 (FFMIA), OMB Circular A-123, *Management's Responsibility for Internal Control* and OMB memoranda such as M-04-11 from Linda Springer to chief financial officers and others, dated April 30, 2004, requiring provider agencies to give service auditor reports to client agencies, in accordance with AICPA Statement on Auditing Standards (SAS) No. 70, "Reports on the Processing of Transactions by Service Organizations, as Amended," April 15, 2002. However, several respondents said that the parent agencies of designated Centers of Excellence are not yet in compliance with these rules, nor will they be in the near term. Some stated that SAS 70 reviews, required to substantiate internal controls for those providing shared services, were not being considered by designated COEs for several more years.

### **Private sector role in shared services**

Many survey respondents said that the private sector will continue to supply much of the support and information technology services used in public sector shared services. Private companies are better able than federal entities to obtain funds for capital investments in new technology and deal with the ebb and flow of volume fluctuations in servicing needs. In addition, the private sector has more experience in managing the technologies and processes of shared services. Under the current "rules of the game" for private versus public competition for shared services customers, the private sector has the incentive of profits and the risk of failure, which motivates industry to strive for better customer service and a larger customer base. Many respondents did support the private/public sector consortia and typically did not like the private sector only options for Centers of Excellence.

I thank you for the opportunity to testify today before the Committee and will be happy to answer questions that you may have. Thank you.



## **Resume of Clifton A. Williams, CPA, CGFM**

Mr. Williams joined Grant Thornton LLP in 2003 and is a partner in the Global Public Sector group located in Alexandria, Va. He has more than 25 years of government and private sector experience in nearly all areas of accounting, financial information systems, financial management and accounting. This includes shared services, Chief Financial Officer (CFO) Act implementation, compliance and financial auditing, accounting systems implementation, process improvement and redesign, performance measurement, activity-based cost management (ABC/M), benchmarking, fee setting and outsourcing.

As a Federal manager, Mr. Williams worked with the Internal Revenue Service, the Department of Commerce, the Office of Personnel Management and the Department of the Navy. Working in the consulting industry,

Mr. William's federal clients include the Department of Homeland Security (Coast Guard, Transportation Security Administration), the former Immigration and Naturalization Service, the Executive Office of Immigration Review, Center for Medicare and Medicaid Services, the Drug Enforcement Administration, the National Institutes of Health, the Federal Aviation Administration, and the Departments of Energy, Veterans Affairs, Treasury, Justice, and Education.

Mr. Williams is a recognized thought leader in Federal financial management. He has directed four surveys of federal CFOs, deputy CFOs and other financial managers for the Association of Government Accountants and Grant Thornton. Topics covered in past surveys include shared service arrangements in the Federal Government (2003); structure of the federal financial community, human capital, performance management, e-Gov, financial systems and erroneous payments (2004); and the integration of performance measurement and internal control (2005). While a manager with the Internal Revenue Service, Mr. Williams developed the Federal Accounting Standards Advisory Board (FASAB) SSFAS #4, "Managerial Cost Accounting Concepts and Standards." He has published in the *Journal for Public Budgeting and Finance*, *PA Times* and related publications. Mr. Williams a member of the American Institute of Certified Public Accountants and Maryland Association of Certified Public Accountants, and is a Certified Government Financial Manager (CGFM).

**Addendum A: Questionnaire for Association of Government Accountants  
2006 Survey of Federal CFOs**

**Date of survey interview:**

**Name, title and organization of people surveyed**

Name

Title

Organization

**Is the organization a LOB/Center of Excellence for any functions? If so, list them here.**

**Name and phone number of interviewer(s)**

Name

Phone number

**Background information**

The Association of Government Accountants (AGA) is conducting its annual survey of Federal financial management leaders. As we have for the past 9 years, Grant Thornton LLP is supporting the AGA survey by doing interviews and preparing the survey report. AGA and Grant Thornton design these surveys to identify and describe emerging issues in financial management.

**Interviewees.** In this survey, leaders we will interview include CFOs, deputy CFOs, comptrollers and directors of major financial management agencies and programs. In addition, the AGA survey will interview a select group of customers of financial management information and services. They include high level departmental leaders and the managers of major government programs.

**Topics.** Earlier AGA surveys focused on issues such as electronic government, governance structure, human capital, financial systems and the integration of performance measurement with internal control. For the 2006 survey, our focus is on shaping the future of financial management, the impact of lines of business and centers of excellence, and looking at the era of new (ERP) financial management information systems.

**Anonymity.** AGA surveys like this one do not attribute thoughts and quotations to individual interviewees. This preserves anonymity and encourages interviewees to speak freely.

**Topic 1: Shaping the future**

This topic examines what financial executives think must be done in order to achieve the financial management goals of the President's Management Agenda (PMA). What new initiatives should be started to reach the PMA goals? Which existing initiatives should be continued, and at what level—more resources, fewer resources or about the same

resources? Which should be stopped because they either are not working, too costly or are no longer a priority?

- 1) Thinking about your own organization (e.g., office, agency, department), how close do you think you are to achieving the financial management goals of the President's Management Agenda? Are you:
  - a) Just getting started
  - b) Well along the way
  - c) Nearly there
  - d) Arrived at the goal
- 2) Thinking about your organization, over the next two years which management initiatives need to be started, continued or stopped in order for you to achieve the goals? Which initiatives should receive top priority?
- 3) Thinking about the routine financial tasks in your organization, what still needs to be done in order for them to perform according to your expectations?  
(If the respondent mentions a task, such as accounting, ask "If you could go back to the start of this Administration, what would you have done differently in order to improve the performance of that task?")
- 4) Over the past two years, what have you and your organization done to better integrate program performance and financial (accounting and budgeting) management? Over the next two years, what do you plan to do to better integrate these?
- 5) Since the issuance of the December 2004 revision of OMB Circular A-123, *Management Accountability and Control*, what steps have you taken to improve internal control in your organization? Over the next two years, how do you plan to integrate internal control and performance measurement?

## **Topic 2. Line of business and centers of excellence**

The Bush Administration has emphasized Line of Business and Centers of Excellence (LOB/COE) such as travel, accounting, financial reporting, reconciliation, budget formulation and execution, payroll and other financial functions. The following questions relate to this idea and to the experience that government organizations are having with it.

- 1) (If the participant's organization already is a LOB/COE for financial functions, ask the following questions):
  - a) In your opinion, has becoming a LOB/COE been a positive experience for your organization? Please explain.

- b) In the next two years, do you think your LOB/COE will recruit more customers?
  - c) What lessons have you learned about LOB/COE that you would like to share with your colleagues in other organizations?
- 2) (If the participant's organization is not a LOB/COE for financial functions, ask the following questions):
- a) Over the next two years, do you see your organization becoming a LOB/COE for financial functions? If so, which functions?
  - b) Over the next two years, do you see your organization moving financial functions to an outside LOB/COE? If so, which functions and why?

### **Topic 3: Information Systems**

These questions focus only on financial management (accounting and budgeting) information systems. The financial management systems environment is bordering on completion of the ERP era. Most every CFO agency has either brought up a new system or nearly completed one. Only a few agencies are in the start-up phase of implementing a new system and have begun considering shared services options (another LOB agency or contractor). There have been failures and successes.

- 1) Thinking about the federal government as a whole, do you think that federal ERP initiatives have been successful?
- 2) What are the next challenges, goals or steps in financial information systems for your organization?
- 3) What types of IT investments do you see your organization making over the next two years? Will the investments be aimed at maintaining current capabilities or adding new ones?

### **Last questions, for all interviewees**

- What are your top three concerns about financial and performance management in government today?
- Over the next 12 to 18 months, how do you see your CFO organization focusing its limited resources to address these concerns?